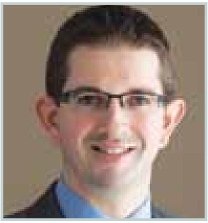

Revenue Insight

The Revenue Commissioners have released their 2014 Annual Report. Finola O'Hanlon and Brian Broderick look at some interesting details on Revenue activities and outlook in 2014

Stamp Duty

In 2014 the number of stamp duty returns filed was up by 25% on the previous year, reflecting the fact that the property market and economy were beginning to recover in 2014.

The number of stamp duty audits were down on the previous year but the yield increased by just under 20%, so the Revenue recovered more money with fewer audits, which is the primary aim of the Revenue's risk identification system.

Revenue uses the REAP (Risk Evaluation Analysis and Profiling) System to identify potential tax defaulters. Information is fed in from more than 50 separate data sources, ranging from the letting details held by the Private Residential Tenancies Board to interest payments from banks over a certain threshold. The data is cross-checked against tax returns made, and a risk ranking is attached to each taxpayer. The higher the risk ranking is the more likely the taxpayer is to be selected for audit.

Data from stamp duty returns for properties and commercial leases are forwarded by Revenue to the Property Registration Authority, to form part of the published property registers.

CAT & LPT

The 2014 tax receipts from Capital Acquisitions Tax (CAT) were similar to receipts in the boom year of 2007, largely as result of an increase in CAT rates (from 20% to 33%) and a dramatic reduction in the tax free thresholds available during the period. For example, the group (a) threshold in 2007 was €496,824 and it has now been reduced to €225,000.

The drop in tax free thresholds from the heights of 2009 (when a child could take €542,544 free of tax) and the current level of €225,000 (a reduction of circa 58%) largely mirrors the fall in property prices; the CSO reports a fall of 57% in Dublin residential property prices between 2007 and 2012.

There has been some recovery in the value of property in most of Ireland and the latest CSO Report dealing with house prices in March 2015 indicated that Dublin residential property prices overall are back to a level which is just 38.7% lower than the peak in 2007.

The Minister for Finance indicated recently that he will be keeping tax thresholds and other aspects of CAT under review. This has been taken to mean that he is considering some movement in CAT rates and/or thresholds, or the cut off point for prior benefits, in the context of the next Budget which is due in October 2015.

If asset values rise in the current year the 2015 CAT receipts should be higher than last year. However the Annual Report made it clear that CAT is one of the less lucrative taxes, accounting for a very small portion of overall tax receipts. Net CAT receipts of €356m was collected in 2014, but this was less than 1% of Revenue's net receipts for the year. Nearly €137m more tax was collected from LPT than CAT.

The Revenue report that they collected €493m in Local Property Tax (LPT) in 2014 (1.19% of net receipts for the year) and received advance payments of €39m for 2015 LPT.

While LPT was not well received politically, it has been very successfully implemented by Revenue in a relatively

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short period of time, and the recovery rate for LPT is very high. There was a 95% compliance rate for LPT in 2014, presumably due in part to the fact that LPT is a charge on the relevant property and dealt with in the course of conveyancing. This is coupled with a Revenue policy of making LPT easy to pay and hard to avoid. The payment can be deducted at source from salaries and social welfare payments, as an alternative to payments being made by a taxpayer directly, and income tax surcharges arise where LPT is not paid by self-assessed taxpayers, all measures that encourage compliance.

Revenue noted that this was the second year in a row that LPT compliance was at 95%, and this was described as *"a strong vindication of our focus on excellent service backed-up by decisive interventions when necessary."*

Revenue Interventions

Revenue have remained focused on the effectiveness of their interventions. The Revenue computer systems have been extended and improved in recent times and the movement towards e-filing returns has freed up Revenue personnel to carry out audits, verification checks and other interventions.

The area of audit is a growth sector for Revenue and the focus has been on targeting the risky cases. Between 2014 and 2015 Revenue reduced the overall number of audit interventions by circa 30% but increased the yield from audit activity by circa 11% as the 7,636 audit interventions carried out by Revenue in 2014 yielded €338.8m in tax.

Only 270 of the interventions were random audits, and the balance were selected based on risk factors identified by Revenue. Most random audits provided a low yield and the majority (64%) resulted in no additional tax being paid.

Audit Targets

Revenue's audit analysis gives some insight into areas and the type of taxpayers they are currently targeting as high risk. The following professions and activities were listed as some of the key targets in 2014:-

- Legal Activities - There were 723 audits and interventions relating to legal activities in 2014 resulting in a yield of €6.1m.
- Medical Practices - There were 569 audits and interventions in the area of medicine and Revenue yielded circa €11.6m from doctors and medical companies controlled by doctors. Not surprisingly Revenue have indicated that they will continue to focus on this area.
- Rental Activities & Landlords - There were 5,534 audits and other compliance interventions in relation to rental properties in 2014, resulting in a yield of €44.1m.

The high level of activity in relation to rental properties may come from the fact that in 2013 a property database was compiled for LPT, giving Revenue a much clearer picture of the number of houses and other dwellings in Ireland, and information in relation to which properties are occupied by owners and which are available to rent. In addition, the linking of the LPT data with PPS numbers for the owners, and those in receipt of rent, means that Revenue can identify and track the taxpayers who are

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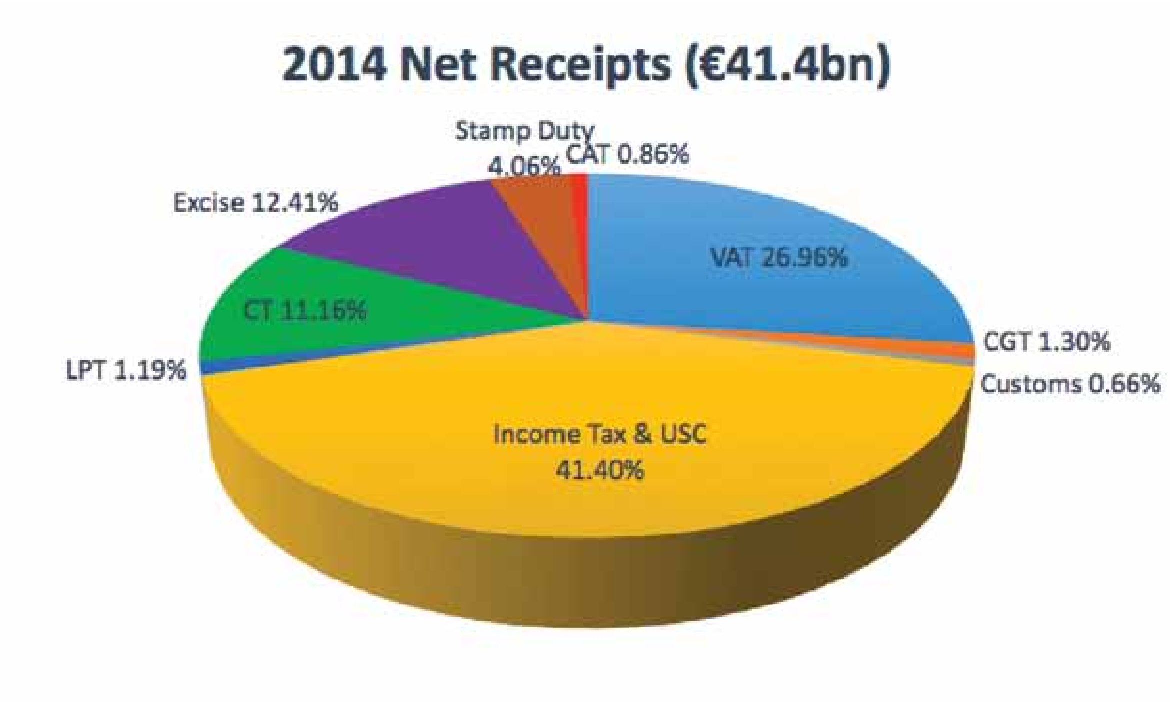

active as landlords. The yield from unpaid tax on rent rose from €36.7m in 2013 to €44.1m in 2014 (an increase of just under 20%). With this level of recovery this is likely to remain a key area for Revenue in 2015.

2014 Revenue Annual Report – Tax Statistics and Pie Charts

Net Revenue receipts for 2014 were €41.4 billion which was up €3.5billion (a 9.3% increase) on 2013 receipts. Tax collection was 3.05% ahead of target for the year. Net receipts are not yet at pre-recession levels (€47.5 billion in 2007) but are significantly higher than the 2010 low of €31.9 billion.

Stamp duty receipts also remain significantly lower than 2007 levels but this is due in part to a reduction in stamp duty rates as well as 2014 transaction levels not having recovered to 2007 levels.

2014 CGT receipts (€539m) are dramatically lower than 2007 receipts (€3bn) and this is likely due to a combination of CGT losses sheltering CGT gains and a lack of capital gains arising where asset values have not recovered to 2007 values.

One area where CGT has become relevant again is in probate cases, where asset values rebase on death and gains often arise during the course of administration of an Estate. Losses which may have arose to a deceased individual are not available to the Estate and care needs to be taken when valuing property for probate purposes as this sets the base cost for any future disposal by an Estate (or beneficiaries). If a sale of property is likely to occur quite quickly following a death then the executors could consider delaying the filing of the Form CA24 until a sale price has been agreed so that an accurate valuation of the property at the date of death can be ascertained.

> The fact that more tax was collected out of fewer audits and interventions indicates that Revenue are succeeding in their aim of identifying and targeting riskier taxpayers

Comparisons with 2007 Pre-Recession Receipts

Income tax and VAT have traditionally been the two biggest income sources for Revenue and 2014 saw the first major increase in VAT receipts since the recession with a year on year rise of 8% bringing VAT receipts to €11.2 billion but the number of transactions are still down on 2007 levels.

Conclusion

The 2014 Revenue Annual Report highlights the shift in focus to taxes on income and the ongoing mission to improve Revenues systems to capture information and use it to identify and target the riskier tax cases.

In 2013, a total of 626,561 audit and compliance interventions were completed resulting in a yield of €548m. In 2014, the number of interventions reduced significantly (437,181) but the yield increased to €610m. The fact that more tax was collected out of fewer audits and interventions indicates that Revenue are succeeding in their aim of identifying and targeting riskier taxpayers.